

# Wisconsin Taxation of Lottery Winnings

There are no substantive changes since the last version of this publication.

## I. INTRODUCTION

The purpose of this publication is to address various questions about the taxation of lottery winnings, withholding of Wisconsin income tax from Wisconsin lottery winnings, and the offset of Wisconsin lottery winnings for payment of delinquent Wisconsin taxes, child support, and other debts to Wisconsin state agencies.

**CAUTION**

The information in this publication reflects the interpretations by the Wisconsin Department of Revenue of laws enacted by the Wisconsin Legislature as of December 15, 2003. Laws enacted after this date, administrative rules, and court decisions may change the interpretations in this publication.

## II. TAXATION OF LOTTERY WINNINGS

**Federal:** Winnings from a lottery are considered gambling winnings and must be included in federal taxable income, regardless of the amount of the winnings.

**Wisconsin:** A *resident* of Wisconsin is taxed on all lottery winnings, whether the winnings are from the Wisconsin Lottery or another lottery.

A *nonresident* of Wisconsin is taxed on lottery winnings from the Wisconsin Lottery, as well as from a multijurisdictional lottery (for example, Powerball), if the lottery ticket was purchased from a retailer in Wisconsin. However, a nonresident of Wisconsin must have Wisconsin gross income, including any Wisconsin lottery

winnings, of \$2,000 or more before the nonresident is required to file a Wisconsin income tax return and pay Wisconsin income tax on the lottery winnings.

*Example 1:* You are a resident of Wisconsin and won \$50 in the Wisconsin Lottery. The \$50 you won must be reported as taxable income on your federal and Wisconsin income tax returns.

*Example 2:* You are a resident of Wisconsin and won \$500 in the Illinois Lottery. The \$500 you won must be reported as taxable income on your federal and Wisconsin income tax returns.

*Example 3:* You are a nonresident of Wisconsin and won \$500 in the Wisconsin Lottery. You have no other gross income taxable by Wisconsin. Although the winnings are taxable for federal and Wisconsin income tax purposes, you are not required to file a Wisconsin income tax return and report the taxable lottery winnings, because your Wisconsin gross income is less than \$2,000 for the year.

**Sharing of Lottery Winnings** For both federal and Wisconsin income tax purposes, two or more persons may share the lottery winnings from a single Wisconsin Lottery ticket. The persons may also share in the taxation of those lottery winnings.

A court order is required when more than one person is claiming a share of a Wisconsin Lottery prize. If two or more claimants agree to share in the winnings from a lottery ticket, the amount that each claimant receives is reportable as taxable income at the state and federal level.

To share in the taxation of any potential winnings, an agreement to share in the lottery winnings must be made **prior** to the drawing or start of the event that determines the winner (for example, a ball drawing or scratching of a ticket is the event that determines a winning ticket for most lottery products).

When a claimed prize is accompanied by the required court order, the Wisconsin Lottery will issue payment to the sharing claimants identified in the court order, in the amounts and manner as described in the court order. By January 30 following the year of payment of the prize, the Wisconsin Lottery will also mail each individual claimant a federal Form W-2G, reporting an amount consistent with the payment and taxation instructions contained in the court order. Multiple claimants who wish to share a prize, but who fail to complete a court order, may not receive separate payment checks or separate Form W-2Gs, consistent with Wisconsin Statutes and Administrative Code. An agreement to share in the lottery winnings made **after** the start of the event that determines the winner will preclude the persons from sharing in the taxation of such winnings.

*Example:* You and two of your friends agree to share equally in any winnings from a lottery ticket you purchased prior to the time you scratch off the ticket (scratching off the ticket is the event that determines the winner). The lottery ticket is a winner of \$1,500. You and your two friends should each report \$500 ( $\$1,500 \div 3 = \$500$ ) as taxable income for each person's share of the lottery winnings.

**Reporting the Sharing of Winnings to the Lottery** The Wisconsin Lottery will issue only one check for a prize, unless a court order is presented, declaring that the prize is to be shared by more than one claimant. However, even if a court order was not presented at the time the lottery winnings were paid, two or more persons may still share in the taxation of the lottery winnings, provided there was an agreement to share in the lottery winnings. For lottery winnings of more than \$600, you must take the following steps to ensure that the winnings will be reported for the proper claimants:

1. Obtain a court order advising the Wisconsin Lottery that the prize is claimed by more than one claimant.
2. Complete one federal Form 5754 for the group of claimants, and a claim form for each individual claimant in the group.
3. Present all completed documents (court order, Form 5754, and individual claim forms) at a Lottery Validation Center, or mail them to the address below. The processing of these documents may take up to two weeks from receipt of the documents.

If you have questions about claiming Lottery prizes, you may visit any Lottery Validation Center or contact the department as follows:

By phone – (608) 266-7777

By mail – Wisconsin Lottery  
Mail Stop 231  
P.O. Box 8941  
Madison, WI 53708-8941

By e-mail – [info@wilottery.com](mailto:info@wilottery.com)

III. DEDUCTIONS FOR LOTTERY LOSSES

**Federal:** If you claim itemized deductions, you may deduct on federal Schedule A (as a miscellaneous itemized deduction) the amount you spend on lottery tickets and the amount of any other gambling losses you incurred during the year, but only up to the amount of lottery winnings and other gambling winnings you report as taxable income. The miscellaneous itemized deduction is not subject to the 2% of adjusted gross income limitation. You must be able to prove the amount of your losses by receipt, ticket, or statement.

**Note:** If you claim the federal standard deduction, you are not allowed any deduction for gambling losses.

**Wisconsin:** Amounts allowed as miscellaneous itemized deductions on federal Schedule A, including amounts spent on lottery tickets, may not be used in computing the Wisconsin itemized deduction credit. No deduction is permitted on the Wisconsin income tax return.

*Example:* You received a total of \$100 of lottery winnings during the year, which you reported as taxable income. You purchased \$200 of lottery tickets during the same year and had no other gambling winnings. On Schedule A for federal income tax purposes, you may deduct \$100 of lottery ticket purchases (limited to the amount of the winnings) as a miscellaneous itemized deduction. You may not use the \$100 miscellaneous itemized deduction in computing your Wisconsin itemized deduction credit.

IV. CREDIT FOR TAXES PAID TO OTHER STATES

If you are a Wisconsin resident and paid income tax to another state or the District of Columbia on lottery winnings, you may be entitled to claim a credit for such income tax on your Wisconsin income tax return. To qualify for the credit, the lottery winnings that were taxed by the other state must also be included in your Wisconsin income and taxed by Wisconsin. For more information, see the instructions for Wisconsin Form 1.

V. WITHHOLDING INCOME TAX FROM LOTTERY WINNINGS

Wisconsin income tax will be withheld from Wisconsin lottery winnings of \$2,000 or more. For purposes of the \$2,000 limit, lottery winnings means the **total lottery prize**, not each claimant's share of the lottery prize. As noted previously, the Wisconsin Lottery will make one payment unless a court order instructs the Lottery to do otherwise. Tax withholding will be applied consistent with the payment structure

outlined in the court order. Therefore, any income tax withheld will reduce the amount of the check(s) issued.

*Example:* You and two other people buy a Wisconsin Lottery ticket and provide a court order declaring that the prize is claimed by three persons. The ticket is a winner of a \$3,000 prize. Wisconsin income tax will be withheld from the total lottery winnings, even though each winner's individual share in the lottery winnings (\$1,000) is less than \$2,000.

In addition to the taxable amount of lottery winnings reported on Form W-2G, Wisconsin withholding will also be shown, if applicable. If there was a sharing of the lottery winnings (and the required court order was presented to the Wisconsin Lottery), withholding will be shared in the same proportion and reported as such on Form W-2G.

Wisconsin income tax will be withheld at the highest rate that applies to individuals at the time of winning.

Although Wisconsin income tax will not be withheld from lottery winnings of less than \$2,000, the winnings are still subject to Wisconsin income tax.

VI. WITHHOLDING DELINQUENT TAXES AND DEBTS TO OTHER STATE AGENCIES FROM LOTTERY WINNINGS

Before paying lottery prizes of \$1,000 or more, the Wisconsin Lottery is required to determine if the winners of the lottery prize are delinquent in the payment of Wisconsin taxes, child support, or debts to other Wisconsin state agencies.

If you are found to be delinquent in the payment of such liabilities, the Wisconsin Lottery will notify the appropriate state agency of the amount of your lottery winnings (your share, if applicable). Upon certification by the Wisconsin

Department of Revenue or other Wisconsin state agency, or upon court order, the Lottery will withhold the certified amount from your lottery winnings, and the Department of Revenue will distribute any Wisconsin state agency's share to the agency. The remaining balance of your lottery winnings will be sent to you.

If a claimant of a shared lottery prize (where the required court order was presented to the Wisconsin Lottery) is subject to withholding for delinquencies, only that claimant's share of the lottery winnings will be used to determine the amount available to pay that claimant's delinquent account(s).

VII. ADDITIONAL QUESTIONS?

If you have any questions about the taxation of lottery winnings for federal income tax purposes, please contact the IRS (the IRS's telephone number is 1-800-829-1040).

If you have questions about the taxation of lottery winnings for Wisconsin income tax purposes, you may visit any Department of Revenue office or contact the department as follows:

By phone – (608) 266-2772

By mail – Wisconsin Department of Revenue  
Mail Stop 5-77  
P.O. Box 8949  
Madison, WI 53708-8949

By e-mail – [income@dor.state.wi.us](mailto:income@dor.state.wi.us)